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SUBJECT: DOE'S ENERGY PARTNERSHIP DIALOGUE WITH INDONESIA

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¶11. (SBU) Summary. The U.S.-Indonesia Energy Policy Dialogue (EPD) was held in Jakarta on October 21 and 22, 2008. The last EPD was held in 2005. The U.S. delegation was led by Department of Energy Deputy Assistant Secretary (DAS) for International Energy Cooperation Dr. Phyllis Yoshida, and the Indonesian delegation was led by Ministry of Energy and Mineral Resources Director General for Oil and Gas Dr. Evita Legowo. Minister of Energy and Mineral Resources Purnomo Yusgiantoro gave the opening plenary statements. Both sides discussed global and national energy outlooks, electricity power generation, geothermal and renewable energies, nuclear power, as well as fossil fuel production and use, including coal, oil, and gas. Both sides agreed on some areas for future cooperation, such as in the areas of geothermal, renewable and energy efficient technologies, and committed to holding the next meeting in late 2009 or early 2010. End Summary.

MEETING WITH MINISTER PURNOMO

¶12. (SBU) In a pre-dialogue courtesy call with Minister for Energy and Mineral Resources Purnomo Yusgiantoro, U.S. government representatives discussed a wide range of issues with Minister Purnomo and other Indonesian counterparts. Both sides acknowledged uncertainties in the current investment climate, and they praised private sector interest and participation in the EPD. Minister Purnomo encouraged U.S. cooperation and investment in its geothermal and renewable energy efforts, including carbon capture and storage (CCS). Regarding geothermal energy, Minister Purnomo specifically asked for assistance in technology development to determine the optimal size of the borehole. The United States discussed the International Partnership for Geothermal Technology (IPGT) and noted that the partnership is open to international partners. Minister Purnomo expressed interest in both the Carbon Sequestration Leadership Forum and GE's coal gasification technologies, to reduce carbon emissions.

¶13. (SBU) The U.S. side encouraged energy efficiency efforts, and asked about Indonesian government policies preventing foreign ownership of power plants smaller than 10 megawatts, although Indonesian officials, including the Minister, were unclear on the specifics of the investment barrier.

PLENARY

¶14. (U) In the Indonesian government's plenary statements, Director General of Oil and Gas Evita Legowo highlighted Indonesia's history of energy consultations with the United States and other countries. She stressed Indonesia's goal of increasing domestic energy production, and hoped that greater bilateral cooperation could help them achieve this goal.

¶15. (U) DAS Yoshida acknowledged that it had been "much too long" since both sides had met but stressed that both governments have been committed to bilateral talks since 2005. She noted that, as the second and third largest democracies in the world, the United States and Indonesia should cooperate to spur development based on ample supplies of affordable, clean energy.

¶16. (U) In his plenary opening statement, Minister Purnomo observed that there had been a "slowdown" in U.S.-Indonesian bilateral energy talks, but he was hopeful that this dialogue meeting signaled a return to more consistent engagement. He stressed that the United States had originally been the biggest energy investor in Indonesia, and he expressed appreciation for the United States as a continuing pioneer in the energy field. He called for greater cooperation between the countries to strengthen company-to-company and sector-to-sector cooperation.

ENERGY OUTLOOK

¶17. (U) In an overview of its energy outlook, Indonesia stressed that its growth would require more energy. Their national plans call for a change in their energy mix from the current reliance on petroleum to a greater use of coal, geothermal, biofuel and renewable

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energies. They also hope that the shift of energy sources will result in a reduction of carbon dioxide emissions over baseline projections.

¶18. (U) In his overview of the global and U.S. energy outlook, Acting Assistant Secretary (Acting A/S) for Fossil Energy James Slutz projected increased energy use outside the OECD, with a growth in liquid fuels, gas, and coal. Although there will be growth in renewable energies, and biofuels will remain a part of the energy mix, there will also be significant CO2 growth.

¶19. (U) Acting A/S Slutz stressed that U.S. energy goals include maximizing production worldwide; working toward greater energy security; and promoting greater technical development, including greater energy efficiency and improved fuel economy standards.

ELECTRIC POWER

¶10. (U) The Indonesian presenters summarized Indonesia's electricity goals: 1) increase electrification from 64% in 2008 to 76% in 2015 and 93% in 2025; 2) add generating and distribution capacity, equaling nearly \$100 billion by 2025; and 3) change the energy mix to favor alternative and renewable energies.

¶11. (U) To accomplish these goals, the Indonesians noted that they must address some daunting challenges, including shifting from a system of subsidized electricity to a market-based system, and encouraging Independent Power Producers (IPPs) to enter the electricity generation market. It does not yet have timetables for the accomplishment of either goal, and the PLN (Indonesia's state-owned power company) representative acknowledged that currently, PLN's fuel costs exceed its tariff revenue. PLN's current Phase I expansion plans, adding 10,000 MW of coal-fired generating capacity, must be entirely financed by the company, although the bonds for that project are backed by an Indonesian government guarantee.

112. (U) Indonesian officials stressed the need to increase the use of coal in their energy mix, due to the country's large deposits of this fuel. They encouraged foreign investment and capital, although they also pointed out that future investment will likely be subject to new licensing requirements under the new mining law (not yet passed by the legislature), which will give fewer protections to mine operators than current contracts of work.

113. (U) To maximize the use of coal, Indonesians seek to develop coal liquefaction and gasification, both in electricity generation and industries such as fertilizer. Officials claimed significant government interest in coal liquefaction, and they hope to start building a plant next year and begin producing in 2013. Indonesian officials also highlighted the importance of geothermal energy in their future energy mix.

114. (U) The U.S. discussed its ongoing efforts advancing clean coal technologies and presented a brief history of coal beneficiation technologies developed in the United States. U.S. clean coal technologies include the restructured FutureGen, the Clean Coal Power Initiative, and carbon sequestration programs. Coal beneficiation is a process by which low-ranked coal can be upgraded by removing moisture and ash, sodium, and other impurities.

GEOOTHERMAL AND RENEWABLES

115. (U) Indonesians hope to maximize their use of geothermal energy, of which they currently have 1,052 MW of installed capacity. Indonesia is estimated to have about 27,000 MW in geothermal energy reserves, although observers estimate that only about 10,000 MW of it is commercially viable. DOE EERE Program Manager for Geothermal Technologies Ed Wall pointed out that U.S. geothermal capacity was also concentrated geographically in less-populated western states, requiring upgrades to distribution systems to maximize the benefits.

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However, he highlighted a number of government-funded projects in the United States that seek to maximize geothermal efficiency and facilitate its integration into the market. Wall also advocated the International Partnership for Geothermal Technology that enables countries to share information on geothermal development strategies, and collaborate on new projects, thereby maximizing the effectiveness of their research.

116. (U) U.S. officials also highlighted other renewable energy goals, including energy efficiency programs, promotion of hybrid cars, geothermal, wind, solar, and biomass programs. They also underscored renewable energy facilitation efforts through programs at the Department of Energy that seek to overcome barriers to commercialization of new technologies by reducing financial barriers to the production and distribution of new technologies.

117. (U) Indonesian officials detailed their goal of changing their energy mix by 2025 to decrease reliance on oil and increase other sources, including new and renewable sources. They highlighted three key goals of this policy: 1) rural electrification through small-scale generation, including micro hydro and solar; 2) interconnection of renewable energy power generation; and 3) the Phase II 10,000 MW electricity program, 70% of which will be from renewable energy sources, primarily geothermal and hydro power.

118. (U) Indonesian officials gave an overview of their efforts to change Indonesia's energy mix, including increasing the proportional use of gas and coal, as follows:

- Current Mix: Oil 52%; Gas 29%; Coal 18%; New and Renewable Energy 4%.

- 2025 Business as Usual: Oil 41%; Gas 21%; Coal 35%; Hydro 2%; Geothermal 1%

- 2025 Goal: Oil 20%; Gas 30%; Coal 33%; Renewables 5%; Biofuel 5%; Geothermal 5%; CTL 2%

Although biofuel use will soon become mandatory in Indonesia, officials acknowledged that most of their programs are in the experimental stages.

NUCLEAR

¶19. (U) Indonesia made a presentation on its planned nuclear energy development. The GOI is in the process of developing the technical capacity and regulatory structure for nuclear energy, although they have not made the political decisions as to whether or not to go forward.

¶20. (U) DAS Yoshida pointed to a similar renewal of interest in nuclear energy in the United States, and she advocated for Indonesia to participate in the Global Nuclear Energy Partnership (GNEP). Luluk Sumiarso indicated that the Indonesian government was still having "internal discussions," and had not yet made a decision as to whether or not to participate in GNEP.

Oil and Gas

¶21. (U) The EPD's final session dealt with oil and gas, and had the most robust private sector participation. The Indonesians stressed the need for increased investment and greater production. In their overview of their sector, they stressed their reserves, as follows:

Oil Reserves:
Proven - 3,747.5 MMSTB
Potential - 4,471.7 MMSTB
Total - 8,219.2 MMSTB

Gas Reserves
Proven - 112.5 TSCF
Potential - 57.6 TSCF
Total - 170.1 TSCF

¶22. (U) In order to increase production, Indonesians stressed the

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investment opportunities in production, including exploration, enhanced recovery at old wells, deepwater exploration, LNG production and receiving terminals, and coal bed methane.

¶23. (U) They also highlighted downstream sectors, which traditionally have not received as much foreign investment, and in some cases were only recently opened to foreign investment. They sought investment in refining, pipelines, fuel storage and transportation, and gas distribution infrastructure

¶24. (U) The U.S. delegation also gave an overview on the Methane-to-Markets (M2M) and Global Gas Flaring Reduction programs and encouraged the GOI increased participation in GGFR and in joining M2M. A presentation on coal bed methane (CBM) development noted the increasing use of CBM in the United States. Indonesia has not yet developed this vast (estimated at 450 trillion cubic feet) domestic energy resource, but seeks to expand its use. The two sides agreed to share more information on CBM technology.

¶25. (U) Acting A/S James Slutz gave an overview of the National Petroleum Council's report "Hard Truths," which states that increasing global energy needs requires the use of all energy sources, both traditional fossil fuels as well as new and renewable energies. He stressed that it is therefore important for countries to have policies that maximize production as well as use energy efficiently. Slutz concluded with a strong warning against the erosion of contract sanctity that some observers have noted in the Indonesian energy sector, indicating that it may reduce the participation of private sector companies as the competition for financing and investment dollars increases.

Closing Statements and Future Cooperation

¶26. (U) In closing statements Indonesia's Abdul Muin, Vice Chairman of BP MIGAS, stressed the need for the United States and Indonesia to address issues such as the recent spike in oil prices, and the impact on our societies, together. He also pushed for a commitment for the next meeting of the Energy Policy Dialogue, to ensure that they are held regularly. DAS Yoshida indicated that, because of pending elections in both countries, the next round would most likely occur in late 2009 or early 2010. She suggested that the United States host the next meeting.

¶27. (SBU) Both delegations agreed to hold interim meetings on areas of mutual benefit, including through digital video conferences. They will seek cooperation in several areas, including:

- The development of conventional, renewable and energy-efficient technologies;
- Geothermal technology development through multilateral agreements such as the International Partnership for Geothermal Technology;
- Additional cooperation through multilateral partnerships such as Methane to Markets; and
- The exchange of experiences and information on policies and activities that support and improve the investment climate, build capacity, and promote economic development.

¶28. (U) This cable has been cleared by U.S. Department of Energy Deputy Assistant Secretary Phyllis Yoshida.

HUME